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Finance minutes 11/01/2012

Finance Committee

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UMM Finance Committee Minutes

11.1.2012

Members Present: Brad Dean, Michael Korth, Dennis Stewart, Bryce Blankenfeld, Sara Haugen, Pieranna Garavaso, Mary Zosel, Timna Wyckoff, , Lowell Rasmussen, Tara Winchester, Reed Olmscheid, Laura Thielke

Members Absent:

Guests: Colleen Miller, Amanda Krosch-Note Taker

Approval of the 10.18.2012 minutes:

Lowell: A clarification in the minutes is that UMM does have the ability to scoop before Period 915 is closed, however, since the numbers are not final, it may create deficits/more work and it is not recommended. But we can.

Sara: revise the minutes on page 4: "Sara: This committee recommended keeping \$500,000 for reserve." What was said and/or meant was that "CRPC recommended keeping \$500,000 for an initiative fund"-will be changed in the minutes.

Minutes from 10.18.2012 unanimously approved as amended.

Lowell Rasmussen distributed a document entitled, "UMM Energy Report": The handout addresses the financial side of the wind turbines. Wind Turbine #1 is owned by West Central Research and Outreach Center (written as WCROC for the remainder of the minutes). Wind Turbine #2 is owned by UMM. There are policies and procedures on how to handle the fiscal side of the operation.

For a baseline, FY 2005 is used because it is the last year of using 100% fossil fuel for energy. FY 2011 is used as a comparison because it was the first full year of both turbines operating. This created more than a 50% reduction in fossil fuel power usage from Otter Tail Power Company. To calculate cost, \$0.08 is the raw cost of electricity per kilowatt-hour from Otter Tail, not the total cost with surcharges.

Timna: Does the annual cost vary with the weather?

Response: Lowell: Definitely, usage varies approximately plus or minus 10%, which is the reason it is hard to budget for electrical usage because of variability of the weather.

Lowell: UMM's power comes from both turbines but UMM uses roughly the energy production of the 2nd wind turbine. Our electrical use is going down and the hope is it continues to decline.

Lowell: The cost of wind power includes the bond payment and operating & maintenance costs. UMM pays Vestas \$80,000/year to do all the maintenance to keep UMM's turbine (Turbine #2) running. UMM has a Memorandum of Understanding with WCROC whereby Ottertail is paying UMM for the energy bought from Turbine #1 and then UMM pays WCROC that amount plus any usage of wind power from turbine #1. There are times when UMM Campus starts to use part of WCROC's power. It is estimated that UMM will not use more than \$10,000/year of WCROC's power.

The Total Wind Cost for electricity generated by the wind turbines is about \$0.07/kwh. UMM charges auxiliaries (examples: Housing, Sodexo, Fleet) \$0.08/kwh. UMM is now paying \$0.12/kwh for power produced by Otter Tail. This includes charges during peak demand, power factor charge, and fuel charges, which are added on to the \$0.08 raw cost of energy to make it \$0.12. We are passing some savings to auxiliaries by charging them only \$0.08/kwh, which equals about \$40,000 of savings (last year) from not charging them \$0.12. In 2011, if UMM would have been totally reliant on Otter Tail Power, we would have paid \$.12/kwh, which would have cost around \$390,000 more. By using wind power, UMM had \$390,000 of cost avoidance for its electricity.

Timna: Do we ever sell any of the power generated by the wind turbines back to Otter Tail?

Response: Lowell: UMM uses about 100% of the power generated by Turbine #2; WCROC sells power to Otter Tail (via the power grid).

Lowell: Back to the handout, the cost of electricity to the rest of the campus is the total cost of power minus the charges paid by the auxiliaries.

Gwen: Does WCROC make money?

Response: WCROC owns Turbine #1 and they have expenses just like UMM. Their turbine is also older than UMM's.

Timna: Are they making money because they don't use all the electricity?

Response: Lowell: Yes, they don't use much, if any, power. However, they will use some power when they get their ammonia plant up and running.

Dennis: What do we get out of using WCROC's turbine?

Response: Lowell: We get all the rights to the green credits from both turbines. And we have access to green power if we need it.

Timna: Why don't we buy more power from WCROC and less from Otter Tail?

Response -Lowell: Production versus need. The wind power comes to UMM first. We buy as much as we can. There are times we use all the power from both turbines. But during peak hours when not enough power is generated by the turbines, UMM must buy from Otter Tail. Wind delivers more power during night, generally speaking.

Lowell: The future outlook is that Otter Tail power costs will continue to climb while our bonds and maintenance costs are fixed.

Brad: How long will we be servicing debt?

Response: Colleen: We have 20 year bonds.

Lowell: Michael also asked me to address biomass.

FY 2005 will act as the benchmark, UMM spent about \$1 million on gas with the cost at \$0.09/BTU. FY 2011 is the best year to use as a comparison because it is the first year that we had good use of biomass. Gas prices have drastically dropped to \$0.059 in FY 2011. It cost the biomass plant \$120,000 to buy corn cobs for a year. The cost of buying gas or using biomass are almost equal, meaning UMM's biomass is being competitive with the local price of gas.

This year's goal is to produce 4,000 tons of biomass, which is 53% of production capacity and the goal is to get to 80%. Corn cob supply has a contract price that is fixed for 3 years.

By using wind power, and not using electricity produced by coal systems, UMM saves approximately 1 million gallons of water indirectly. We use non-city water in the biomass plant. There are other attributes to using biomass, but they are harder to quantify.

Timna: When do we buy the biomass? If the cost of gas goes below cost of biomass, can we use gas and not biomass?

Response: Lowell: UMM is not obligated to use biomass; however, we have a minimum amount of cobs that we must buy from the farmer.

Sara: Is it (the farmer) just one person?

Response: Lowell: Yes, one farmer and in the contract it includes the price of the cobs plus his labor and his equipment, because he brings the cobs to UMM.

Michael: How often do the trucks of cobs come?

Response: Lowell: One truck load per day, in a cold winter, probable around two per day.

Sara: Do we store some or do they come every day?

Response: Lowell: We can store some. There is a salt shed that the City of Morris was going to tear down and UMM asked to use it. So UMM has a no cost lease with Department of Transportation to use the shed to keep the cobs dry, so we do have a stock pile.

Timna: But we always have access to gas, correct?

Response: Lowell: Correct.

Michael: Nice to see green energy is cost effective.

Let's return to discussion of reserve funds and the question: "How are the contingency funds to be used?"

Turning to the draft document on Contingency Reserve: Does this document satisfy the need identified at the previous meeting?

Laura: It needs to clarify that contingency funds are taken from fund 1000 only.

Brad: What is the intended audience?

Response: Michael: People who have to manage budgets.

Brad: I've managed some budgets and "fund 1000" is not a term that I'm familiar with.

Mary: Colleen, you have talked about going out the division offices to train on funds and such, which could help if "fund 1000" isn't clearly understood.

Colleen: Kim or I would be happy to give anyone training on Chart of Accounts/fund related topics.

Timna: We received a handout that showed how the contingency fund money had been spent in the past 3 years. The draft document should include some of that information so people see what is being done with the money. I would like to know why scholarships were \$500,000 over budget for two years.

Response: Michael: the hand out was to help understand scooping.

Colleen: UMM didn't spend \$500,000 more in the merit scholarships, we spent what we had budgeted. In one case, Central redirected the funding we had budgeted for the merit scholarship program, thereby taking away funds from our original planned expenditures and creating a hole in the scholarship fund. Contingency funds were used to fill the hole.

Timna: I don't understand the difference between filling a hole and spending more money than budgeted.

Michael: I think that is something that we should discuss in a future meeting.

Gwen: Back to the draft Contingency Reserve document: what I like about this message is that it points to a goal of having \$5-6 million in a reserve.

Lowell: Linc recommended percentage of 7-10% for UMM to have set aside in the reserve.

Colleen: I can assure you that this number is being watched. There is pressure at times from legislators, saying to the University as a whole, "you have funds in reserve and you are asking for more money, why?" What is the right amount in reserve for UMM?- that is the question.

Meeting adjourned.

Next meeting November 15, 2012 in the Moccasin Flower Room at 8AM.